

Message Text

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INFO OCT-01 EUR-25 ISO-00 SPC-03 SAM-01 AID-20 EB-11

NSC-10 RSC-01 CIEP-02 TRSE-00 SS-20 STR-08 OMB-01

CEA-02 XMB-07 L-03 COME-00 IGA-02 CIAE-00 DODE-00

INR-10 NSAE-00 PA-04 USIA-15 PRS-01 DRC-01 /166 W

----- 123399

R 211545Z FEB 74

FM AMEMBASSY ACCRA

TO SECSTATE WASHDC 2623

INFO AMEMBASSY LONDON

C O N F I D E N T I A L SECTION 1 OF 2 ACCRA 1014

E.O. 11652: GDS

TAGS: EFIN EAID PFOR IBRD GH

SUBJ: GHANA DEBT: SECOND ROUND NEGOTIATIONS

REF: STATE 034085

SUMMARY - FOR PAST WEEK AND PRIOR RECEIPT REFTEL, MISSION HAS BEEN GIVING FURTHER CONSIDERATION TO U.S. POSITION RE GHANA DEBT SETTLEMENT FORMULA. WE HAVE HAD SERIOUS DOUBTS ABOUT WISDOM OF BEING LOCKED INTO POSITION WHICH MIGHT CAUSE FAILURE TO REACH SETTLEMENT. OUR THINKING, REFLECTED IN THE BODY THIS MESSAGE, LEADS US TO RECOMMEND FLEXIBILITY ON THE PERCENTAGE FORMULA. RECOGNIZING THAT THIS CONCLUSION DIFFERS FROM THAT CONTAINED REFTEL, WE NEVERTHELESS BELIEVE DEPARTMENT SHOULD BE AWARE OF OUR VIEWS. AS LAST PARA REFTEL STATES, WE TOO WOULD NOT LIKE TO SEE THE DEBT NEGOTIATIONS ABORTED AT THE VERY END OF A LONG AND DIFFICULT ROAD. END SUMMARY.

1. MESSAGES FROM WASHINGTON, LONDON AND BONN CONCERNING CREDITORS' ATTITUDE ON GHANA DEBT SETTLEMENT UNIFORMLY REPORT FIRM POSITION IN BEHALF OF FORMULA OF TEN-YEAR GRACE, EIGHTEEN-YEAR REPAYMENT AND 2.5 PERCENT INTEREST. CONSENSUS IS THIS
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LAST POSITION OF CREDITORS AND THAT IF GHANA DECLINES ACCEPT

THE 2.5 PERCENT INTEREST, AGREEMENT CANNOT BE REACHED. THIS CONCLUSION IS EMBODIED IN REFTTEL.

2. IN AN ATMOSPHERE OF UNANIMITY, THERE MAY BE ASSUMPTIONS WHICH BEING TAKEN FOR GRANTED SHOULD BE REEXAMINED. RECOGNIZING THAT THIS IS AN UNPOPULAR PURSUIT, WE NEVERTHELESS THINK THAT WE WOULD BE REMISS IN OUR RESPONSIBILITIES IF WE FAIL TO DO THIS. WE SEE THE PROBLEM AS FOCUSING ON THE ONE-HALF OF ONE PERCENT, AND AS WE UNDERSTAND THE ISSUES, THERE ARE BOTH SPECIFIC AND GENERAL POINTS TO BE CONSIDERED. SINCE THE POINTS VARY ACCORDING TO THE GOVERNMENT (OR AGENCY) CONCERNED, WE REVIEW THEM WITHOUT SEEKING TO ESTABLISH A FIRM HIERARCHY OF THEIR IMPORTANCE.

3. "THE CREDITORS' PROPOSAL IS AS FAVORABLE AS THE INDONESIAN SETTLEMENT." IN FURTHER ANALYSIS OF COMPARATIVE GRANT ELEMENTS, IT IS APPARENT FIRST THAT THE EXPERTS DISAGREE ON HOW TO COMPUTE THE GRANT ELEMENT AND SECOND, IT IS LIKELY THAT THE INDONESIAN GRANT ELEMENT REMAINS SUBSTANTIALLY LARGER THAN THAT OF THE GHANAIAN FORMULA. WE THEREFORE CONCLUDE THAT EXCEPT FOR THE ASPECT OF EXTERNAL CONTROLS, THIS ARGUMENT CANNOT BE EFFECTIVELY USED. IN FACT, STATE 22194 INSTRUCTS US TO AVOID MENTIONING IT.

4. "IF TERMS ARE FURTHER MODIFIED, IT WILL CONSTITUTE A BAD PRECEDENT FOR OTHER NEGOTIATIONS." THIS ASSERTION HAS ALWAYS BAFLED US. WE HEAR GENERAL REFERENCES TO OTHER PROBLEMS, E.G. CHILE, PAKISTAN, BANGLADESH, ETC. BUT, TO OUR KNOWLEDGE AT LEAST, NONE OF THESE NEGOTIATIONS IS AT THE STAGE OF THE GHANA SETTLEMENT. WE DON'T KNOW WHAT THE TERMS OF THE OTHER SETTLEMENTS MAY BE, OR TO WHAT EXTENT CIRCUMSTANCES MAY BE DIFFERENT. THIS ARGUMENT ASSERTS AN INHIBITION ON SOMETHING WE ARE DEALING WITH NOW (GHANA) AGAINST AN UNKNOWN NEGOTIATIONS. THE PATTERN OF PAST DEBT RESTRUCTURINGS SUGGESTS THAT THE INFLUENCE OF PRECEDENTS IS NEGLIGIBLE AGAINST SPECIAL CIRCUMSTANCES. THUS, WE ARE NOT CONVINCED BY AN ARGUMENT OF THE UNKNOWN AGAINST THE KNOWN, OR THE POTENTIAL FUTURE AGAINST THE PRACTICAL PRESENT.

5. "THE ADDITIONAL ONE-HALF OF ONE PERCENT IS IMPORTANT TO CONFIDENTIAL

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THE CREDITORS BECAUSE IT ENSURES A GREATER REFLOW OF FUNDS IN THE NEAR TERM WHEN THEY ARE MOST DESIRED." THE ONE-HALF OF ONE PERCENT DIFFERENCE, ACCORDING TO IBRD REPS HERE IN ACCRA, WOULD AMOUNT TO 14 MILLION DOLLARS OVER TEN YEARS, DIVIDED AMONG ALL REPEAT ALL CREDITORS - WEST AND EAST. THIS IS OBVIOUSLY FAR LESS THAN A MILLION YEAR, SINCE THERE ARE APPROXIMATELY TWENTY CREDITORS IN ALL. IN OTHER WORDS, THE AMOUNT INVOLVED IS SO SMALL THAT THE FLOW OF

FUNDS TO CREDITORS IS OF NO CONSEQUENCE.

6. "SINCE THE CREDITORS HAVE AGREED ON THE PRESENT FORMULA WITH DIFFICULTY AND RELUCTANCE, IT IS IMPOSSIBLE TO EXPECT THEM TO MAKE STILL ANOTHER CONCESSION." WE ARE MUCH AWARE OF THE RELUCTANCE OF SOME OF THE CREDITORS AND THE REMARKABLE LEADERSHIP GIVEN THE GROUP BY THE UK CHAIRMAN TO GET THE CREDITORS TO GO AS FAR AS THEY HAVE. TO ACCEPT THIS CONCLUSION AS A PROHIBITION OF CONSIDERING A ONE-HALF OF ONE PERCENT CHANGE, HOWEVER, PLACES THE MODALITIES OF THE PROBLEM IN A HIGHER RANGE OF IMPORTANCE THAN THE SUBSTANCE. WE WOULD SUBMIT THAT IF AN ADDITIONAL MODIFICATION OF TERMS IS VALID ON ITS MERITS, THE QUESTION OF GETTING CREDITOR AGREEMENT SHOULD BE CONSIDERED AS A TACTICAL PROBLEM.

7. "RATHER THAN YIELD THE ONE-HALF OF ONE PERCENT, THE CREDITORS WOULD PREFER NO AGREEMENT." IT SEEMS TO US THAT THE IMPLICATIONS OF NO AGREEMENT ARE VERY SERIOUS.

A. IT MEANS, IF THE LINE IS HELD ON BILATERAL GRANTS AND LOANS, THAT WE ARE ABANDONING THE PROSPECTS OF REPAYMENT BY GHANA.

B. THAT WOULD ALSO MEAN THAT WE ARE GIVING UP ON HELPING ACHIEVE REAL ECONOMIC GROWTH IN GHANA.

C. IF, AS IS LIKELY, SOME COUNTRIES, E.G. GERMANY, WILL GO AHEAD WITH BILATERAL CREDITS, AND THE IBRD WILL GO AHEAD WITH ITS LOANS, WE THEN FACE REAL TENSION AMONG CREDITORS, BETWEEN THE IBRD AND CERTAIN CREDITORS, AND BETWEEN GHANA AND CERTAIN CREDITORS. THIS TENSION, OF COURSE, WOULD NOT BE LIMITED TO AID QUESTIONS AND WOULD OVERFLOW INTO OTHER AREAS OF RELATIONS AS WELL.

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INR-10 NSAE-00 PA-04 USIA-15 PRS-01 DRC-01 /166 W

----- 122838

R 211600Z FEB 74
FM AMEMBASSY ACCRA
TO SECSTATE WASHDC 2624
INFO AMEMBASSY LONDON

C O N F I D E N T I A L SECTION 2 OF 2 ACCRA 1014

8. "SINCE THE U.S. HAS ONLY A SMALL PART OF THE MEDIUM-TERM LOANS, WE WOULD NOT BE DIRECTLY HURT BY A FAILURE OF AN AGREEMENT." THIS SERIOUSLY MISREADS THE INDIVISIBLE NATURE OF GHANAIAAN FOREIGN POLICY. IF GHANA FACES SERIOUS LOSS OF EXTERNAL AID AND FURTHER FINANCIAL PINCH, THERE IS NO DOUBT IN OUR MIND THAT IT WILL TOUGHEN ITS POLICY ON PARTICIPATION IN LARGE FOREIGN FIRMS TO TAKING THEM OVER. SIMILARLY, OTHER DEBTS, PARTICULARLY LONG-TERM IN WHICH WE HAVE HAVE A MAJOR INTEREST, WILL BECOME VULNERABLE TO REPUDIATION. AND IN TRADE, COMMODITY AND OTHER AREAS, GHANA WILL MOVE TO AUTARCHY, NO MATTER HOW SHORT-SIGHTED IT MAY SEEM TO BE.

9. "THE GHANA GOVERNMENT IS ENGAGED IN A TYPICAL BARGAINING TACTIC AND WILL, IN THE END, AGREE TO THE CREDITORS' FORMULA." WE HAVE LOOKED AT THIS PROPOSITION AND DISCUSSED IT INFORMALLY WITH THE IBRD REPS. WE CAN NOT REPAT NOT DEDUCE EVIDENCE WHICH CLEARLY PROVES OR DISAPPROVES THIS PROPOSITION. THERE IS SOME EVIDENCE THAT THE GOG NEGOTIATORS GOT NRC APPROVAL FOR THE TEN-YEAR/TWNTY-YEAR/TWO PERCENT FORMULA, AND THAT THEY FEEL THEY CAN PERSUADE THE NRC TO ACCEPT THE CHANGE TO EIGHTEEN YEARS BUT NOT THE 2.5 PERCENT. (THE IBRD REPS HERE THINK THIS IS A STRONG POSSIBILITY.) WE ALSO KNOW THAT IN SPITE OF HAVE SURVIVED SO FAR IN THE MILITARY REGIME, LEADING CIVILIAN
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OFFICIALS OFTEN FEEL VULNERABLE AND AT LEAST ONE (ASANTE) HAS BEEN TRYING TO RETIRE. NONE CAN BE EXPECTED TO PUSH FOR AN AGREEMENT THAT MEANS PROFESSIONAL DEMISE. WE ARE THEREFORE FAR FROM CERTAIN THAT THE GOG TEAM IS BLUFFING FOR THIS LAST HALF OF A PERCENT.

10. WE CANNOT, IN FAIRNESS TO THE PROBLEMS OF THE CREDITORS AND THE DIFFICULTIES OF GETTING AGREEMENT AMONG THEM, COME TO THE SIMPLE CONCLUSION THAT WE SHOULD FAVOR REDUCTION OF THE INTEREST CHARGE TO TWO PERCENT AND EXPECT AUTOMATIC ASSENT FROM THE OTHER COUNTRIES. BUT IT MIGHT BE POSSIBLE TO SEND A HIGHLY CONFIDENTIAL WARNING TO OUR COLLEAGUES THAT IF IT BECOMES ABSOLUTELY CLEAR THAT THE ONLY OBSTACLE TO AGREEMENT IS THE ONE-HALF OF A PERCENT INTEREEST RATE, THE U.S. WOULD BE PREPARED TO SUPORT SUCH A MODIFICATION OF THE PRESENT CREDITOR POSITION. WE THINK OUR INTERESTS WOULD BE SERVED BY SUCH AN AGREEMENT. WE WOULD HATE TO SEE THAT FOR LACK OF

A HALF PERCENT THE ENTIRE AGREEMENT WOULD BE LOST.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: GOVERNMENT DEBTS, DEBT REPAYMENTS, NEGOTIATIONS, BANK LOANS, INTEREST RATES
Control Number: n/a
Copy: SINGLE
Draft Date: 21 FEB 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974ACCRA01014
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: n/a
From: ACCRA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740219/aaaaarty.tel
Line Count: 225
Locator: TEXT ON-LINE
Office: ACTION AF
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: STATE 034085
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 08 MAY 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <08 MAY 2002 by ifshinsr>; APPROVED <15 JAN 2003 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GHANA DEBT: SECOND ROUND NEGOTIATIONS
TAGS: EFIN, EAID, PFOR, GH, IBRD
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005